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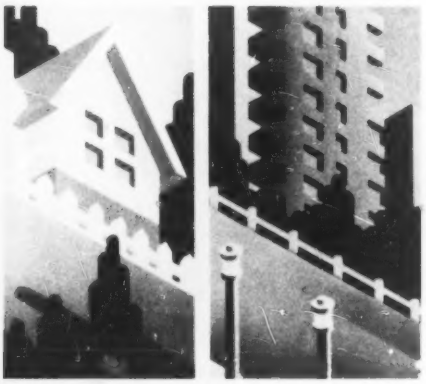
1990 Dodge/Sweet's Construction Outlook

First Update
April 1990



Another Year on the Plateau?

Synopsis: Last October's Outlook for 1990 construction contracting was a guardedly optimistic one. It recognized the probability of further decline of commercial building, as well as the tight lid on public funding for construction programs. This left only housing as the route to recovery of the stalled construction sector. With the expectation that one family home building would respond in 1990 to last year's downward drift of mortgage rates, it was concluded that total construction contract value would abandon its recent "plateau" for a slightly higher elevation.

October's forecast stressed, however, that a broadly based recovery, involving commercial building and public works construction, was two or perhaps three years off.

Update: Economic developments during the second half of 1989 left the construction market in a state of ambiguity at the start of 1990:

• By now, last year's economic "slowdown" is, in the words of Fed Chairman Greenspan, "past its weakest point" and we should anticipate "moderate expansion" this year.

• In response to monetary restraint, inflation has receded to a more acceptable rate.

• Although mortgage rates have been edging up again, their current level (10.3 percent) is nearly a full point below the 1989 peak.

These are normally considered to be signs of an improved environment for the building business, and would suggest that last fall's forecast is nicely on target. However, the construction sector just seems to be saying "No," so far failing to respond to these favorable changes.

• Homebuilding stubbornly resisted the quarter-by-quarter decline of mortgage rates through 1989, leaving one family housing starts no higher in the final quarter than they were at the start of the year.

• Commercial building (offices, in particular) sagged during last year's final months, and hasn't improved since.

At the end of the first quarter, it was becoming apparent that 1990 is not destined to be the year for breaking out of the "gridlock" of conflicting trends that has kept total construction contracting from advancing since 1987.

Reassessing The 1990 Housing Outlook

Last October's moderately bullish expectation of a rebound of housing starts to 1,525,000 units as mortgage rates declined to their lowest level in a decade no longer looks reachable. Opportunity still exists for an improvement in 1990 over last year's depressed 1,372,000 starts, but only to 1,400,000 instead of the 1.5+ million potential.

The bigger number (potential) was based on the supportive combination of favorable demographics and workable interest rates, together delivering slightly more than a million one family housing starts. They actually did this in 1986, 1987, and 1988—but not in 1989 when rates temporaily shot up to 11-1/4 percent. Along with a conservatively estimated 450,000 multifamily units from the depressed apartment market, 1.5 million housing starts was not a particularly ambitious forecast.

So now that 1990 is here, mortgage rates are workable again. And the famous Fifties Generation is as eager for home ownership as before. But homebuilding isn't responding in the same way it did as recently as the final years of the 1980's. Something has changed.

Two developments since mid-1989—banking reform and a regional recession—go a long way toward explaining why things won't be working as well as they did only a year or two ago.

Availability vs. Cost of Credit

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 brings regulation and reform to the high-flying thrift industry, requiring savings associations to conform to stricter standards. Two specific features of the new law could inhibit homebuilding in the near future:

• As of December, 1989, thrifts must maintain a stronger ratio of capital to assets (most effectively accomplished by letting loans run off).

•No more than 15 percent of a thrift's capital can be invested in one project and/or with one developer (previously unlimited).

It is the opinion of the financial community that compliance with these new regulations will reduce the availability of construction loans to builders and developers during the thrift's adjustment period (1990 and perhaps 1991). Although it is virtually impossible to quantify these constraints, they can only affect building adversely in the near term.

A Regional Recession

A regional look at homebuilding in 1989 underscores the fact that mortgage rates were not the only (or even the most important) influence on last year's housing market. With only minor regional differences in mortgage rates, there were wide disparities in homebuilding from one region to the next.

Slowdown may be the appropriate term for what has been happening to the national economy, but for the Northeastern real estate market, it is spelled *recession*. Almost half of last year's decline of housing starts to 1,372,000 units was concentrated in the Northeast. Whether the breakdown of this region's economy took the Northeast's building boom down with it, or the other way around, the deterioration of this regional housing market since mid-1989 has been swift and deep.

Significantly, three regions—the North Central, the South Central, and the West—not only held close to their 1988 volume of building last year, but each reported a strong fourth quarter.

A re-evaluation of the 1990 housing outlook recognizes several impediments which will prevent a fuller response to currently favorable mortgage rates.

Thrift industry reforms could temporarily curtail the availability of development funds. Multifamily building, still overshadowed by the glut of vacant units, will remain depressed and slip to an estimated 400,000 units this year (vs. 411,000 in 1989). And while one family building is generally expected to respond positively to lower mortgage rates, the Eastern part of the nation will not be participating in the recovery. With its slumping high tech and financial services industries creating unemployment and uncertainty, homebuilding in the Northeast is more likely to decline another 10 percent than to rebound. (If this region's rate of homebuilding simply stabilizes at last year's fourth quarter rate, its 1990 total would be lower by 15 to 20 percent.)

In 1990, gains of up to 10 percent in the Central and Western regions will be lifting the national total of one family housing starts back up to 1.0 million units (+4 percent), but a small further decline of multifamily construction (also principally in the Northeast) will keep total housing starts from advancing much beyond 1.4 million units (+2 percent) this year.

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	Nonresidential Buildings	1989 Actual	1990 Forecast	Percent Change 1990/89
Floor Area (millions of square feet)	Office Buildings	226	190	-16
	Stores & Other Commercial	556	470	-15
	Manufacturing Buildings	148	140	- 5
	Total Commercial & Manufacturing	930	800	-14
	Educational	138	135	- 2
	Hospital & Health	71	68	- 4
	Other Nonresidential Buildings	143	137	- 4
	Total Institutional & Other	352	340	- 3
	Total Nonresidential Buildings	1,282	1,140	-11
Contract Value (millions of dollars)	Office Buildings	$ 21,496	$ 18,900	-12
	Stores & Other Commercial	25,280	22,300	-12
	Manufacturing Buildings	10,079	8,975	-11
	Total Commercial & Manufacturing	$ 56,855	$ 50,175	-12
	Educational	$ 14,347	$ 14,525	+ 1
	Hospital & Health	8,679	8,475	- 2
	Other Nonresidential Buildings	14,149	13,850	- 2
	Total Institutional & Other	$ 37,175	$ 36,850	- 1
	Total Nonresidential Buildings	$ 94,030	$ 87,025	- 7
	Residential Buildings			
Dwelling Units* (thousands of units)	One Family Houses	961	1,000	+ 4
	Multifamily Housing	411	400	- 3
	Total Housekeeping Residential	1,372	1,400	+ 2
Floor Area (millions of square feet)	One Family Houses	1,663	1,730	+ 4
	Multifamily Housing	440	422	- 4
	Nonhouskeeping Residential	74	67	- 9
	Total Residential Buildings	2,177	2,219	+ 2
Contract Value (millions of dollars)	One Family Houses	$ 93,272	$ 99,775	+ 7
	Multifamily Housing	22,394	22,200	- 1
	Nonhousekeeping Residential	6,469	6,150	- 5
	Total Residential Buildings	$122,135	$128,125	+ 5
	Nonbuilding Construction			
Contract Value (millions of dollars)	Transportation Construction	$ 24,738	$ 24,350	- 2
	Environmental Construction	19,422	19,525	+ 1
	Total Public Works	$ 44,160	$ 43,875	- 1
	Utilities	$ 4,051	$ 4,000	- 1
	Total Nonbuilding Construction	$ 48,211	$ 47,875	- 1
	All Construction			
Contract Value (millions of dollars)	**Total Construction**	$264,376	$263,025	- 1
	Dodge Index (1982=100)	168	167	

*F.W. Dodge basis

1990 Regional Estimates
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Northeast	CT,ME,MA, NH, NJ, NY, PA, RI, VT	1989 Actual	1990 Forecast	Percent Change 1990/89		1989 Actual	1990 Forecast	Percent Change 1990/89
Contract Value (millions of dollars)	**Nonresidential Building**				**Residential Building**			
	Commercial and Manufacturing	$10,723	$ 8,925	-17	One Family Houses	$13,325	$12,275	-8
	Institutional and Other	7,939	7,300	-8	Multifamily and Nhskpg.	5,770	4,900	-15
	Total	$18,662	$16,225	-13	**Total**	$19,095	$17,175	-10
	Nonbuilding Construction	$11,169	$10,700	-4	**Total Construction**	$48,926	$44,100	-10

North Central	IL, IN, IA, KS, MI, MN, MO NE, ND, OH, SD, WI	1989 Actual	1990 Forecast	Percent Change 1990/89		1989 Actual	1990 Forecast	Percent Change 1990/89
Contract Value (millions of dollars)	**Nonresidential Building**				**Residential Building**			
	Commercial and Manufacturing	$13,854	$13,075	-6	One Family Houses	$17,991	$20,200	+12
	Institutional and Other	8,047	8,100	+1	Multifamily and Nhskpg.	5,608	5,750	+3
	Total	$21,901	$21,175	-3	**Total**	$23,599	$25,950	+10
	Nonbuilding Construction	$10,319	$10,400	+1	**Total Construction**	$55,819	$57,525	+3

South Atlantic	DE, DC, FL, GA, MD, NC, SC, VA, WV	1989 Actual	1990 Forecast	Percent Change 1990/89		1989 Actual	1990 Forecast	Percent Change 1990/89
Contract Value (millions of dollars)	**Nonresidential Building**				**Residential Building**			
	Commercial and Manufacturing	$11,866	$10,350	-13	One Family Houses	$22,476	$23,850	+6
	Institutional and Other	8,048	7,825	-3	Multifamily and Nhskpg.	7,507	7,400	-1
	Total	$19,914	$18,175	-9	**Total**	$29,983	$31,250	+4
	Nonbuilding Construction	$ 8,483	$ 8,500	--	**Total Construction**	$58,380	$57,925	-1

South Central	AL, AR, KY, LA, MS, OK TN, TX	1989 Actual	1990 Forecast	Percent Change 1990/89		1989 Actual	1990 Forecast	Percent Change 1990/89
Contract Value (millions of dollars)	**Nonresidential Building**				**Residential Building**			
	Commercial and Manufacturing	$ 7,084	$ 5,975	-16	One Family Houses	$10,478	$11,675	+11
	Institutional and Other	5,422	5,550	+2	Multifamily and Nhskpg.	1,541	1,725	+12
	Total	$12,506	$11,525	-8	**Total**	$12,019	$13,400	+11
	Nonbuilding Construction	$ 8,130	$ 8,075	-1	**Total Construction**	$32,655	$33,000	+1

West	AK, AZ, CA, CO, HI, ID, MT NV, NM, OR, UT, WA, WY	1989 Actual	1990 Forecast	Percent Change 1990/89		1989 Actual	1990 Forecast	Percent Change 1990/89
Contract Value (millions of dollars)	**Nonresidential Building**				**Residential Building**			
	Commercial and Manufacturing	$13,328	$11,850	-11	One Family Houses	$29,002	$31,775	+10
	Institutional and Other	7,719	8,075	+5	Multifamily and Nhskpg.	8,437	8,575	+2
	Total	$21,047	$19,925	-5	**Total**	$37,439	$40,350	+8
	Nonbuilding Construction	$10,110	$10,200	+1	**Total Construction**	$68,596	$70,475	+3

Nonresidential Building: Still Unwinding

As expected, 1989 brought another step downward along a declining cyclical path from the 1985 peak of 1,427 million square feet of newly started commercial, industrial and institutional buildings. For the year as a whole, 1989 square footage totaled 1,282 million (930 million square feet of commercial and industrial buildings; 352 million of institutional and other nonresidential structures).

The quarter-by-quarter pattern of 1989 contracting which led to the year's total of 1,282 million square feet of nonresidential building was anything but a smooth downward path. A surge of contracting in the third quarter produced a "spike," only to be followed by a sharp decline (to an annualized rate of 1,195 million square feet). Fourth quarter weakness of nonresidential building was evident in most regions—not exclusively in the troubled Northeast—and coincided with a rash

of gloomy economic news at year-end. First quarter 1990 brought no improvement.

In the remaining quarters, nonresidential building will be buffeted by two opposing forces. If the national economy is on the threshold of reversing its "slowdown," it is reasonable to expect a minor rebound from the recent low rate of contracting. Before year-end, however, the overriding decline of commercial construction will again become dominant.

By structure type, these revised estimates of 1990 nonresidential building still look quite like last October's forecast, even though their total is a bit lower than before. The most vulnerable nonresidential building markets continue to be offices and retail facilities. In the case of offices, correction for mid-1980's overdevelopment has been underway for several years. Retail building, by contrast, has been slower to make its needed adjustment.

Since reaching a peak of 350 million square feet in 1985, contracting for office building has declined steadily, passing through 225 million square feet in 1989. This volume of building is sufficiently below the current requirements of the white collar work force to bring down the national vacancy rate (still at 19 percent), but only slowly. Supply/demand equilibrium and the subsequent recovery of office building will not soon be realized unless new construction is further reduced. A cutback of another 16 percent, to 190 million square feet, is estimated for 1990, with still lower numbers to follow.

Retail building (shopping centers, stores, and warehouses) also reached a peak in 1985 at just under 600 million square feet, but so far has shown little inclination to settle back to normal. In the case of shopping center development, "normal" is a volume of construction which maintains parity with homebuilding. Since the mid-1980's, retail building has exceeded this historic norm by approximately 25 percent, and although specific vacancy data are not available, a glut of shopping space is generally acknowledged by the industry. Partly in response to last year's weak volume of housing starts, but more in recognition of overcapacity, construction of retail facilities is headed for a decline of as much as 15 percent this year.

With most other types of nonresidential building—industrial, educational, health care, etc.—holding close to last year's square footage in 1990, total volume will be down an estimated 11 percent. The contract value of this year's nonresidential building projects will slip to $87.0 billion, down 7 percent from 1989.

From a regional perspective, the softening of the Northeastern economy does not require as much a downward revision of nonresidential building as it does for housing. For reasons having less to do with regional economics and more with overbuilding, commercial construction had been forecast to decline in most areas again this year, and a sizeable portion of that decline was anticipated to occur in the recently booming Northeast.

Public Works Construction

The point has been made repeatedly that public works construction is trapped between the rock of deficit reduction and the hard place known as the New Federalism. With most Federal programs being squeezed to satisfy ever more difficult deficit targets, state and local governments struggle to fill the gap. The result: There has been little change in the $43 to $44 billion annual total of contracting for highways, bridges, mass transit, water resources, and waste treatment facilities since that level was reached back in 1987.

Has public works construction become a unique category for which last year's actual contracting serves nicely as this year's forecast? Not really, but until the peace dividend becomes something more than a dim light at the end of the tunnel, no short term forecast of infrastructure work dares to stray very far from its year-earlier benchmark. In this case, the last known (1989) value of contracting for public works projects amounted to $44.2 billion. As of last October, the 1990 value was forecast to be at the lower end of the $44 to $45 billion range. In this Update, it can be found on the other (i.e., lower) side of $44 billion.

There are a few signs of change that will prepare the way for a somewhat different emphasis on future public construction:

• President Bush appears to be more concerned about the environment than his predecessor was, assigning higher priorities to clean air and toxic waste removal. (These causes rank below deficit reduction and the bailout of the thrift industry, however.)

• The transition for Federal (EPA) construction grants for sewer/waste treatment facilities to state revolving funds is picking up momentum. In 1989, a total of 35 states had capitalized their loan programs, compared with only 8 the year before. (It remains to be seen whether the SRF's will actually make more funds available for sewer construction than the EPA grant program did.)

• Airport construction could benefit from the Administration's proposal to charge passengers a head tax (if Congress approves).

None of these developments will have much direct impact in 1990, however, when the recent patterns of public works construction will remain frozen in place.

Stability is Not Stagnation

Six months ago, 1990 offered the promise of lifting the Dodge Index of construction contract value off the plateau on which it has settled since first reaching 165 back in 1987. Owing to the collapse of a major building market during the second half of 1989, that prospect has evaporated. It now looks as though the construction/building materials industry will be spending another year on the plateau.

Stability is an unnatural state for the construction sector, and to focus on the bottom line of total construction activity can be deceptive.

Just below the placid surface of total construction lie the cross currents where the real action can be found. At the national level, three distinct movements are forming: down for commercial building, sideways for public works construction, and up for homebuilding. At the regional level, more cross currents: down in the Northeast, steady in the Southeast and the South Central, and up in the North Central and the West.

Subtle, rather than sweeping change, but hardly stagnation.

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1990 Dodge/Sweet's Construction Outlook

Second Update
July 1990

Crunch!

Synopsis: So far in 1990, the construction sector has shown us two speeds: down fast, and down slower. By midyear this left the cumulative value of the year's newly started construction 8 percent short of 1989's first half, with all three major categories of projects bearing minus signs. The setback interrupted a seven year period of continuous expansion of new construction activity.

A look over the shoulder at midyear showed that the "free fall" was confined pretty much to the first quarter. A firming of contracting through the second (June's Dodge Index, at 152, was actually an improvement over April's 148, and close to May's 156) left the impression that the building market was stabilizing in the 150's—roughly 15 percent below its 1989:III peak of 175.

Update: If the President can change his mind about taxes, surely the Chairman of the Federal Reserve Board is entitled to modify his stand on monetary policy. But twice in less than a month?

As recently as June, official Fed dogma held that there was no credit crunch. (Well, maybe a selective credit crunch confined to construction and real estate, but nothing to get excited about.) By July, the Fed concluded that restrictive credit conditions did, in fact, pose a threat to the economy's continued expansion, announcing that it would move rates down in order to offset overly cautious lending practices by banks. Later in July, Chairman Greenspan recanted, declaring that "stable credit market conditions....would be appropriate." Stay tuned for further developments.

Ironically, anything the central bank might do to nudge interest rates down (and it is the style of this Fed to make only small changes) would be mostly of indirect benefit to the faltering construction sector where the *availability* of credit, not the rate of interest, is the current concern. Still, if monetary relaxation helps to accelerate the sluggish pace of general economic activity, the construction industry is bound to be better off for it.

The Last Straw

The recent evaporation of funding for real estate development and construction—a by-product of the savings and loan scandal—is but one of several problems plaguing the construction industry in 1990. It appears, however, to be the one that finally toppled the building business from its lofty but precarious perch.

For two years—from mid-1987 through mid-1989—construction contracting rode the peak of a cyclical expansion that had developed during the early and middle years of the 1980's. This rare condition of stability at a high level was the result of a delicate balance of positive and negative forces acting on the market. The oversupply of commercial space and a tight lid on Federal public works programs were enough to prevent further expansion of total construction after 1987, while supportive demographics and workable credit conditions, in an environment of sustained economic growth, held off decline as one family housing and institutional building flourished.

It wasn't long after passage last fall of FIRREA, the Financial Institutions Reform, Recovery and Enforcement Act, that contracting for new construction lost its balance and fell hard. Over the next three quarters the Dodge Index plummeted from its peak of 175 to its current 152.

Cause and effect? Perhaps, as long as it is understood that the 1990 credit crunch was not the whole cause of the collapse of the construction boom of the 1980's. Rather, it was one more handicap to an already troubled market.

For small and medium sized builders, the consequences of a decade's abuse of the deregulation of the thrift industry go beyond the loss of more than a thousand failed S&L's as their major source of ADC (acquisition, development, and construction) loans--the upfront money that gets projects started. It is worth noting, however, that "lack of financing" was by far the reason most frequently cited by Dodge reporters for the failure of projects to advance from planned to work start during the early part of this year.

To make matters worse, the disposition of the assets of the defunct thrifts by the Resolution Trust Corporation at drastic writedowns is discouraging construction by depressing residential and commercial real estate markets, particularly in the economically shaky Northeast. And for the surviving

majority of savings institutions, re-regulation of the industry via FIRREA now means tougher lending standards and tighter solvency requirements. A dollar of deposits doesn't support as much lending as it used to.

With construction contracting stabilizing at midyear, it appears that most of the adjustment to the S&L crisis—in the form of reduced building—has by now been made. However, replacement of the discredited S&L's as a source of ADC lending will be a gradual process.

Lower Numbers For 1990

After three successive quarters of declining contracting, is it safe to say that the worst is over? And if it is, what will a revised set of 1990 estimates look like?

Every decline has its limit, and this one seems to be settling, in terms of the Dodge Index, somewhere in the low 150's. Each of four major categories of construction offers its own reason why little, if any, further decline should be expected:

• Commercial construction (office building, in particular) is down sharply this year, the expected continuation of an established trend. But after more than four years of reduced building, commercial starts have shrunk to a level that is finally low enough to enable the absorption, over the next couple of years, of the surplus left over from the mid-1980's boom. Whereas commercial building is usually at its peak at the onset of a construction downturn, and therefore highly vulnerable, this time most of the cutback has already happened, leaving this category close to bottom.

• Public works construction, which has been capped at approximately $44 billion per year ever since the Gramm-Rudman deficit targets took effect, now faces the risk of a secondary setback as the impending budget crisis is (or isn't) resolved. But with 1990 budget authorizations largely committed by now, the stress being caused by the suddenly ballooning deficit will be greatest in 1991 (not in 1990) when state governments will find themselves unable to offset the deeper cuts that lie ahead for Federal infrastructure programs.

• Institutional building, on the other hand, remains a source of support for the foreseeable future, albeit just about the only one.

• With the nonresidential side of the construction sector behaving much as expected in 1990's opening half, it was the loss of support of homebuilding that was the catalyst for the bottom-line collapse of construction. This leaves housing as the make-or-break category during the second half.

Unless this year's total of housing starts falls short of 1,225,000 units (the current Dodge estimate for 1990, consisting of 900,000 one family units and 325,000 apartments/condos), residential building in the second half of the year will be having a neutral rather than a depressing effect on total construction as it did during the first half

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		1989 Actual	1990 Forecast	Percent Change 1990/89
Nonresidential Buildings				
Floor Area (millions of square feet)	Office Buildings	230	165	-28
	Stores & Other Commercial	559	490	-12
	Manufacturing Buildings	151	130	-14
	Total Commercial & Manufacturing	940	785	-16
	Educational	138	141	+ 2
	Hospital & Health	71	68	- 4
	Other Nonresidential Buildings	147	136	- 7
	Total Institutional & Other	356	345	- 3
	Total Nonresidential Buildings	1,296	1,130	-13
Contract Value (millions of dollars)	Office Buildings	$ 21,755	$ 16,850	-23
	Stores & Other Commercial	25,419	22,800	-10
	Manufacturing Buildings	10,653	8,125	-24
	Total Commercial & Manufacturing	$ 57,827	$ 47,775	-17
	Educational	$ 14,336	$ 15,325	+ 7
	Hospital & Health	8,744	8,675	- 1
	Other Nonresidential Buildings	14,552	13,825	- 5
	Total Institutional & Other	$ 37,632	$ 37,825	+ 1
	Total Nonresidential Buildings	$ 95,459	$ 85,600	-10
Residential Buildings				
Dwelling Units* (thousands of units)	One Family Houses	969	900	- 7
	Multifamily Housing	412	325	-21
	Total Housekeeping Residential	1,381	1,225	-11
Floor Area (millions of square feet)	One Family Houses	1,674	1,598	- 5
	Multifamily Housing	442	351	-21
	Nonhousekeeping Residential	74	56	-24
	Total Residential Buildings	2,190	2,005	- 8
Contract Value (millions of dollars)	One Family Houses	$ 93,811	$ 90,900	- 3
	Multifamily Housing	22,426	18,050	-20
	Nonhousekeeping Residential	6,557	4,825	-26
	Total Residential Buildings	$122,794	$113,775	- 7
Nonbuilding Construction				
Contract Value (millions of dollars)	Transportation Construction	$ 24,859	$ 24,750	--
	Environmental Construction	19,506	19,250	- 1
	Total Public Works	$ 44,365	$ 44,000	- 1
	Utilities	$ 4,349	$ 3,700	-15
	Total Nonbuilding Construction	$ 48,714	$ 47,700	- 2
All Construction				
Contract Value (millions of dollars)	**Total Construction**	$266,967	$247,075	- 7
	Dodge Index (1982=100)	170	157	

*F.W. Dodge basis

1990 Regional Estimates

Dodge Construction Potentials

Northeast	CT,ME,MA, NH, NJ, NY, PA, RI, VT	1989 Actual	1990 Forecast	Percent Change 1990/89		1989 Actual	1990 Forecast	Percent Change 1990/89
Contract Value (millions of dollars)	**Nonresidential Building**				**Residential Building**			
	Commercial and Manufacturing	$10,824		-23	One Family Houses	$13,319		-21
	Institutional and Other	8,136		-6	Multifamily and Nhskpg.	5,778		-39
	Total	$18,960		-15	**Total**	$19,097		-27
	Nonbuilding Construction	$11,399		-10	**Total Construction**	$49,456		-19

North Central	IL, IN, IA, KS, MI, MN, MO NE, ND, OH, SD, WI	1989 Actual	1990 Forecast	Percent Change 1990/89		1989 Actual	1990 Forecast	Percent Change 1990/89
Contract Value (millions of dollars)	**Nonresidential Building**				**Residential Building**			
	Commercial and Manufacturing	$13,926		-5	One Family Houses	$17,974		+4
	Institutional and Other	8,026		+8	Multifamily and Nhskpg.	5,635		-6
	Total	$21,952		-1	**Total**	$23,609		+2
	Nonbuilding Construction	$10,302		--	**Total Construction**	$55,863		+1

Southeast	DE, DC, FL, GA, MD, NC, SC, VA, WV	1989 Actual	1990 Forecast	Percent Change 1990/89		1989 Actual	1990 Forecast	Percent Change 1990/89
Contract Value (millions of dollars)	**Nonresidential Building**				**Residential Building**			
	Commercial and Manufacturing	$12,033		-27	One Family Houses	$22,688		-4
	Institutional and Other	8,040		-4	Multifamily and Nhskpg.	7,509		-30
	Total	$20,073		-18	**Total**	$30,197		-10
	Nonbuilding Construction	$ 8,541		-4	**Total Construction**	$58,811		-12

South Central	AL, AR, KY, LA, MS, OK TN, TX	1989 Actual	1990 Forecast	Percent Change 1990/89		1989 Actual	1990 Forecast	Percent Change 1990/89
Contract Value (millions of dollars)	**Nonresidential Building**				**Residential Building**			
	Commercial and Manufacturing	$ 7,274		-25	One Family Houses	$10,488		+7
	Institutiona' and Other	5,520		-7	Multifamily and Nhskpg.	1,549		-2
	Total	$12,794		-18	**Total**	$12,037		+6
	Nonbuilding Construction	$ 8,161		-3	**Total Construction**	$32,992		-5

West	AK, AZ, CA, CO, HI, ID, MT NV, NM, OR, UT, WA, WY	1989 Actual	1990 Forecast	Percent Change 1990/89		1989 Actual	1990 Forecast	Percent Change 1990/89
Contract Value (millions of dollars)	**Nonresidential Building**				**Residential Building**			
	Commercial and Manufacturing	$13,770		-12	One Family Houses	$29,342		-3
	Institutional and Other	7,910		+9	Multifamily and Nhskpg.	8,512		-15
	Total	$21,680		-5	**Total**	$37,854		-5
	Nonbuilding Construction	$10,311		+6	**Total Construction**	$69,845		-3

of the year. At midyear, starts of both one family and multifamily units were at rates below their expected totals for all of 1990, and are more likely to improve slightly than to weaken further in the remaining two quarters of the year.

A mid-1990 appraisal of the strengths and weaknesses of several major categories of construction suggests that the Dodge Index of total construction contract value is now reaching equilibrium in the low-to-middle 150's. And for the time being, stability—not recovery—is the most that circumstances have to offer. The combination of a first half decline followed by firming in the second half will leave total 1990 construction contract value at $247 billion, down 7 percent from the 1989 high.

Compared with the last cyclical trough (1982), the 1990 decline will bottom out at a level 15 percent above its predecessor in constant dollars, and 60 percent higher in *current dollars*.

How It Plays in Peoria

A *regional* comparison of contracting in the first half of 1990 with the same period of 1989 gives the impression that the decline of construction activity since last fall has been mostly an Eastern event. Through midyear, when the national total of newly started construction read -8 percent, three regions accounted for all of the shortfall, though with varying degrees of decline. While the Northeast, with its gap of -24 percent was capturing the headlines, the Southeast, at -13 percent, was also down in double digits, while the South Central ran 7 percent behind 1989 contracting. The other two regions would seem to be unaffected. The West held virtually even with its year-ago level of contracting at midyear, and the North Central was ahead of 1989 by 5 percent after the first six months.

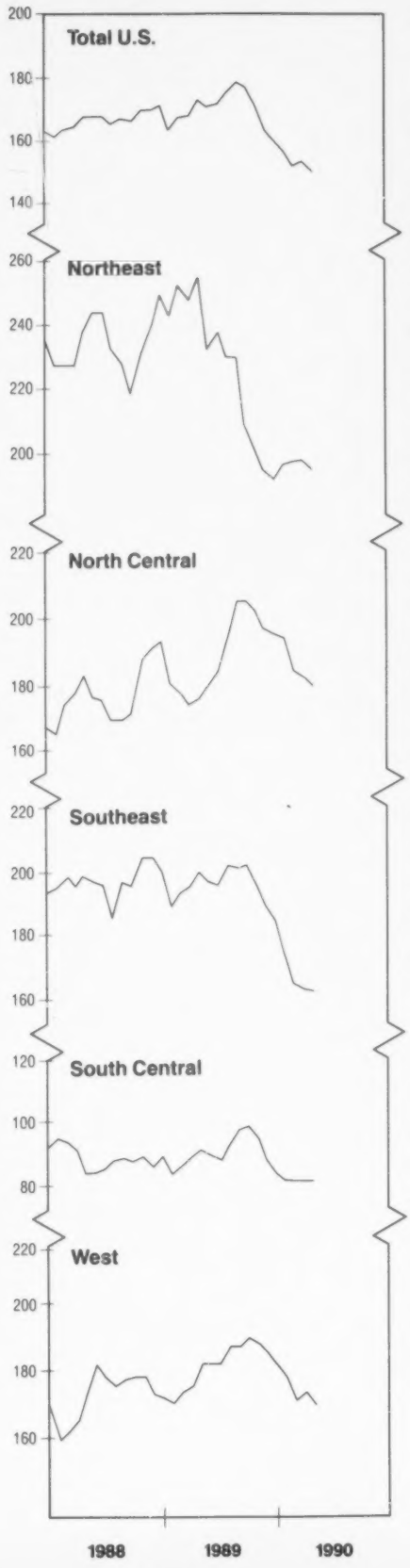
A look at seasonally adjusted rates of construction (the regional Dodge Indexes shown in the center column) gives a different and more meaningful interpretation of the major regional markets. Some were experiencing more difficulty than others at mid-1990, but by this measure, *all five* regions have turned down since the beginning of the year.

By any measure, the Northeast is the hardship case. For this region, whose financial services and computer industries were already slumping, last year's national economic slowdown amounted to a local recession. Construction contracting, still booming through 1989:II, collapsed in the second half (see chart). A new equilibrium, at roughly 75 percent of last year's exceptionally strong first half rate, will leave 1990's full year contract value between 15 and 20 percent below the 1989 total.

The 5 percent "improvement" in the North Central region at the end of six months of 1990 is illusory, and is not likely to survive the second half for two reasons. Most of the 1990 gain is owed to the fact that contracting in the early part of last year was relatively weak, making it a deceptive basis for comparison. And as the chart shows, the rate of contracting through the first half of 1990, though stronger, was clearly on a downward course. When the weakening second half of 1990 is matched against the best that 1989 had to offer, the North Central's full year total for 1990 will finish with only a nominal gain.

Construction Contract Value

Indexed, 1982 = 100



The Southeast and the South Central regions offer an interesting contrast with one of them (SE) coming off a boom and the other (SC) struggling to break out of a long recession.

For the short run (1990 and 1991) most of the risk is in the Southeast where commercial/residential building has overstayed its welcome. Contracting in Florida, the region's bellwether, has tailed off significantly in 1990, as it also has in the DC/Virginia area. This leaves only Georgia and the Carolinas as the region's remaining source of support. In this second most vulnerable market (after the Northeast), a 1990 decline of between 10 and 15 percent is indicated.

In the South Central, the outlook is for "more of the same," or perhaps a little less than last year's total of newly started construction. After five years (1984 through 1988) of decline following the oil patch's 1983 boom, and one more (1989) of consolidation, there isn't much downside risk left. Recovery could take hold in 1991, but for 1990, further small decline of about 5 percent—still concentrated in commercial building—is the outlook.

Like most other regions (the Northeast being the exception) the West has been slipping from a peak of construction activity since 1989:III as the 1990 credit crunch compounded earlier overbuilding. Further weakening of commercial and multifamily residential building during 1990's second half will tip the balance in this key region from where it was at midyear, holding even with 1989, to a small (less than 5 percent) decline of total contracting for the year as a whole.

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